

INDAS 108 – OPERATING SEGMENTS

(TOTAL NO. OF QUESTIONS – 8)

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RTPs QUESTIONS

Q1 (May 19)

An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations. Which cost formula should be used for Ind AS 108 disclosure purposes?

SOLUTION

The entity should use the First-In, First-Out (FIFO) method for its Ind AS 108 disclosures, even though it uses the weighted average cost formula for measuring inventories for inclusion in its financial statements. Where the chief operating decision maker uses only one measure of segment asset, the same measure should be used to report segment information. Accordingly, in the given case, the method used in preparing the financial information for the chief operating decision maker should be used for reporting under Ind AS 108. However, reconciliation between the segment results and results as per financial statements needs to be given by the entity in its segment report.

Q2 (May 20)

ABC Limited has 5 operating segments namely A, B, C, D and E. The profit/ loss of respective segments for the year ended March 31, 20X1 are as follows:

Segment	Profit/(Loss) (Rs in crore)
A	780
B	1,500
C	(2,300)
D	(4,500)
E	6,000
Total	1,480

Based on the quantitative thresholds, which of the above segments A to E would be considered as reportable segments for the year ending March 31, 20X1?

SOLUTION

With regard to quantitative thresholds to determine reportable segment relevant in context of instant case, Ind AS 108 may be noted which provides as follows:

“The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.”

In compliance with Ind AS 108, the segment profit/loss of respective segment will be compared with the greater of the following:

i) All segments in profit, i.e., A, B and E – Total profit Rs 8,280 crores.

ii) All segments in loss, i.e., C and D – Total loss Rs 6,800 crores.

Greater of the above – Rs 8,280 crores.

Based on the above, reportable segments will be determined as follows:

Segment	Profit/(Loss) (Rs in crore)	As absolute % of Rs 8,280 crore	Reportable segment
A	780	9%	No
B	1,500	18%	Yes
C	(2,300)	28%	Yes
D	(4,500)	54%	Yes
E	6,000	72%	Yes
Total	1,480		

Hence B, C, D, E are reportable segments.

MTPs QUESTIONS

Q3 (October 19 – 5 Marks)

X Ltd. has identified 4 operating segments for which revenue data is given below:

	External Sale (Rs.)	Internal Sale (Rs.)	Total (Rs.)
Segment A	30,00,000	Nil	30,00,000
Segment B	6,50,000	Nil	6,50,000
Segment C	8,50,000	1,00,000	9,50,000
Segment D	5,00,000	49,00,000	54,00,000
Total Sales	50,00,000	50,00,000	1,00,00,000

Additional information:

Segment C is a new business unit and management expects this segment to make a significant contribution to external revenue in coming years.

Which of the segments would be reportable under the criteria identified in Ind AS 108?

SOLUTION

Threshold amount is Rs. 10,00,000 (Rs. 1,00,00,000 × 10%).

Segment A exceeds the quantitative threshold (Rs. 30,00,000 > Rs. 10,00,000) and hence reportable segment.

Segment D exceeds the quantitative threshold (Rs. 54,00,000 > Rs. 10,00,000) and hence reportable segment.

Segment B & C do not meet the quantitative threshold amount and may not be classified as a reportable segment.

However, the total external revenue generated by these two segments A & D represent only 70% (Rs. 35,00,000 / 50,00,000 × 100) of the entity's total external revenue. If the total external revenue reported by operating segments constitutes less than 75% of the entity's total external revenue, additional operating segments should be identified as reportable segments until at least 75% of the revenue is included in reportable segments.

In the case of X Ltd., it is given that Segment C is a new business unit and management expects this segment to make a significant contribution to external revenue in coming years. In accordance with the requirement of Ind AS 108, X Ltd. designates this start-up segment C as a reportable segment, making the total external revenue attributable to reportable segments 87% (Rs. 43,50,000 / 50,00,000 × 100) of total entity revenues.

Note:

In this situation, Segments A, C and D will be reportable segments and Segment B will be shown as other segments.

Alternatively, segment B can be considered as a reportable segment as well as it meets the definition of operating segment. If Segment B is considered as reportable segment:

External revenue reported: ₹30,00,000 + ₹6,50,000 + ₹5,00,000 = ₹41,50,000

% of Total External Revenue = ₹41,50,000 / ₹50,00,000 = 83%

Accordingly, Segments A, B and D will be reportable segments and Segment C will be shown as other segments.

Q4 (March 21 – 6 Marks)

T Ltd is engaged in the transport sector, running a fleet of buses at different routes. T Ltd has identified 3 operating segments:

Segment 1: Local Route

- Segment 2: Inter-city Route
- Segment 3: Contract Hiring

The characteristics of each segment are as under:

Segment 1: The local transport authority awards the contract to ply the buses at different routes for passengers. These contracts are awarded following a competitive tender process; the ticket price paid by passengers is controlled by the local transport authority. T Ltd would charge the local transport authority on a per kilometer basis.

Segment 2: T Ltd operates buses from one city to another, prices are set by T Ltd on the basis of services provided (Deluxe, Luxury or Superior).

Segment 3: T Ltd also leases buses to schools under a long-term arrangement.

While Segment 1 has been showing significant decline in profitability, Segment 2 is performing well in respect of higher revenues and improved margins. The management of the company is not sure why the segment information is relevant for users when they should only be concerned about the returns from overall business. They would like to aggregate the Segment 1 and Segment 2 for reporting under 'Operating Segment'

Required:

Whether it is appropriate to aggregate Segments 1 and 2 with reference to Ind AS 108 'Operating Segments'? and

Discuss, in the above context, whether disclosure of segment information is relevant to an investor's appraisal of financial statements?

SOLUTION

Ind AS 108 'Operating Segments' requires operating segments to be aggregated to present a reportable segment if the segments have similar economic characteristics, and the segments are similar in each of the following aggregation criteria:

- (a) The nature of the products and services
- (b) The nature of the production process
- (c) The type or class of customer for their products and services
- (d) The methods used to distribute their products or provide their services
- (e) If applicable, the nature of the regulatory environment

While the products and services are similar, the customers for those products and services are different.

In Segment 1, the decision to award the contract is in the hands of the local authority, which also sets prices and pays for the services. The company is not exposed to passenger revenue risk, since a contract is awarded by competitive tender.

On the other hand, in the inter-city segment, the customer determines whether a bus route is economically viable by choosing whether or not to buy tickets. T Ltd sets the ticket prices but will be affected by customer behavior or feedback. T Ltd is exposed to passenger revenue-risk, as it sets prices which customers may or may not choose to pay.

Operating Segment provides information that makes the financial statements more useful to investors. In making the investment decisions, investors and creditors consider the returns they are likely to make on their



investment. This requires assessment of the amount, timing and uncertainty of the future cash flows of T Ltd as well as of management's stewardship of T Ltd's resources. How management derives profit is therefore relevant information to an investor.

Inappropriately aggregating segments reduces the usefulness of segment disclosures to investors. Ind AS 108 requires information to be disclosed that is not readily available elsewhere in the financial statements, therefore it provides additional information which aids an investor's understanding of how the business operates and is managed.

In T Ltd.'s case, if the segments are aggregated, then the increased profits in segment 2 will hide the decreased profits in segment 1. However, the fact that profits have sharply declined in segment 1 would be of interest to investors as it may suggest that future cash flows from this segment are at risk.



QUESTIONS FROM PAST EXAM PAPERS

Q5 (Exam May 18 & MTP April 22 – 10 Marks)

Seeds Ltd. is operating in the oil industry. Its business segments comprise crushing and refining. Certain information for financial year 2017-18 is given below:

(Rs in lakh)

Segments	External Sale	Tax	Other Operating Income	Result	Assets	Liabilities
Crushing	1,00,000	2,500	20,000	5,000	25,000	15,000
Refining	35,000	1,500	7,500	2,000	15,000	5,000

Additional Information: (Rs in lakh)

- ❖ Unallocated revenue net of expenses is Rs 1,500.
- ❖ Interest and bank charges is Rs 1,000
- ❖ Income-tax expense is Rs 1,000 (current tax Rs 975 and deferred tax Rs 25)
- ❖ Investments Rs 5,000 and unallocated assets Rs 5,000
- ❖ Unallocated liabilities, Reserves & Surplus and Share capital are Rs 10,000; Rs 15,000 and Rs 5,000 respectively.
- ❖ Depreciation amounts for crushing and refining are Rs 500 and Rs 150 respectively.
- ❖ Capital expenditure for crushing and refining are Rs 2,500 and Rs 1,000 respectively.
- ❖ Revenue from outside India is Rs 15,000 and segment assets outside India Rs 5,000.

Based on the above information, how Seeds Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 2017-18?

SOLUTION

(1) Segment revenues, results and other information

(Rs in lakh)

Revenue		Coating	Others	Total
1.	External sales (gross)	1,00,000	35,000	1,35,000
	Tax	(2,500)	(1,500)	(4,000)
	External sales (net)	97,500	33,500	1,31,000
	Other operating income	20,000	7,500	27,500
	Total Revenue	1,17,500	41,000	1,58,500
2.	Results			
	Segment results	5,000	2,000	7,000
	Unallocated income (net of unallocated expenses)			1,500
	Profit from operation before interest, taxation and exceptional items			8,500
	Interest and bank charges			(1,000)
	Profit before exceptional items			7,500
	Exceptional items			Nil
	Profit before taxation			7,500
	Less: Income Taxes			
	Current taxes			(975)
	Deferred taxes			(25)
	Profit after taxation			6,500

3.	Other Information			
(a)	Assets			
	Segment Assets	25,000	15,000	40,000
	Investments			5,000
	Unallocated assets			5,000
	Total Assets			50,000
(b)	Liabilities/Shareholder's funds			
	Segment liabilities	15,000	5,000	20,000
	Unallocated liabilities			10,000
	Share capital			5,000
	Reserves and surplus			15,000
	Total liabilities / shareholder's funds			50,000
(c)	Others			
	Capital Expenditure	2,500	1,000	3,500
	Depreciation	500	150	650

(2) Geographical Information

	(Rs in lakh)		
	India	Outside India	Total
Revenue	1,43,500	15,000	1,58,500
Segment assets	35,000	5,000	40,000
Capital expenditure	3,500	-	3,500

Note: Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments.

Notes:

(i) The operating segments have been identified in line with the Ind AS 108, taking into account the nature of product, organisation structure, economic environment and internal reporting system.

(ii) Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments. Unallocable assets include unallocable fixed assets and other current assets. Unallocable liabilities include unallocable current liabilities and net deferred tax liability.

(iii) Corresponding figures for previous year have not been provided. However, in a practical scenario the corresponding figures would need to be given.

Q6 (November 20 – 6 Marks) – (Similar to Q3)

John Limited has identified for segments for which revenue data is given as per below:

	External Sale (₹)	Internal Sale (₹)	Total (₹)
Segment A	4,00,000	Nil	4,00,000
Segment B	80,000	Nil	80,000
Segment C	90,000	20,000	1,10,000
Segment D	70,000	6,20,000	6,90,000
Total sales	6,40,000	6,40,000	12,80,000

The following additional information is available with respect to John Limited:

Segment C is a high growing business and management expects that this segment to make a significant contribution to external revenue in coming years.

Discuss, which of the segments would be reportable under the threshold criteria identified in Ind AS 108 and why?

SOLUTION

Threshold amount of 10% of total revenue is Rs. 1,28,000 (Rs. 12,80,000 × 10%).

Segment A exceeds the quantitative threshold (Rs. 4,00,000 > Rs. 1,28,000) and hence is a reportable segment.

Segment D exceeds the quantitative threshold (Rs. 6,90,000 > Rs. 1,28,000) and hence is a reportable segment.

Segment B & C do not meet the quantitative threshold amount and may not be classified as a reportable segment.

However, the total external revenue generated by these two segments A & D represent only 73.44% (Rs. 4,70,000 / 6,40,000 × 100) of the entity's total external revenue. If the total external revenue reported by operating segments constitutes less than 75% of the entity's total external revenue, additional operating segments should be identified as reportable segments until at least 75% of the revenue is included in reportable segments.

In the case of John Limited, it is given that Segment C is a high growing business and management expects this segment to make a significant contribution to external revenue in coming years. In accordance with the requirement of Ind AS 108, John Limited may designate segment C as a reportable segment, making the total external revenue attributable to reportable segments be 87.5% (Rs. 5,60,000 / 6,40,000 × 100) of total entity's external revenue.

In this situation, Segments A, C and D will be reportable segments and Segment B will be shown as other segments.

Alternatively, Segment B may be considered as a reportable segment instead of Segment C, based on the choice of John Ltd. 's management, if it meets the definition of operating segment.

If Segment B is considered as reportable segment, external revenue reported will be

$$\text{Rs } 4,00,000 + \text{Rs } 80,000 + \text{Rs } 70,000 = \text{Rs } 5,50,000$$

$$\% \text{ of Total External Revenue} = \text{Rs } 5,50,000 / \text{Rs } 6,40,000 = 85.94\%$$

Segments A, B and D will be reportable segments and Segment C will be shown as other segments.

Q7 (January 21 – 6 Marks)

Heavy Goods Ltd. has 6 operating segments namely L-Q (below). The total revenues (internal and external), profits or losses and assets are set out below:

(In Rs.)				
Segment	Inter Segment Sales	External Sales	Profit / loss	Total assets
L	4,200	12,300	3,000	37,500
M	3,500	7,750	1,500	23,250
N	1,000	3,500	(1,500)	15,750
O	0	5,250	(750)	10,500
P	500	5,500	900	10,500
Q	1,200	1,050	600	5,250
	10,400	35,350	3,750	1,02,750

Heavy Goods Ltd. needs to determine how many reportable segments it has. You are required to advise Heavy Goods Ltd. as per the criteria defined in Ind AS 108.

SOLUTION

As per Ind AS 108, an entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

a) Its reported revenue, including both sales to external customers and inter-segment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.

Combined total sales of all the segments = Rs. 10,400 + Rs. 35,350 = Rs. 45,750. 10% thresholds = $45,750 \times 10\% = 4,575$.

b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of

i) the combined reported profit of all operating segments that did not report a loss and

ii) the combined reported loss of all operating segments that reported a loss.

In the given situation, combined reported profit = Rs. 6,000 and combined reported loss (Rs. 2,250). Hence, for 10% thresholds Rs. 6,000 will be considered.

10% thresholds = $Rs. 6,000 \times 10\% = Rs. 600$

c) Its assets are 10 per cent or more of the combined assets of all operating segments. Combined total assets of all the segment = Rs. 1,02,750

10% thresholds = $Rs. 1,02,750 \times 10\% = 10,275$

Accordingly, quantitative thresholds are calculated below:

Segments	L	M	N	O	P	Q	Reportable segments
% segment sales to total sales	36.66%	24.59%	9.84%	11.48%	13.11%	4.92%	L, M, O, P
% segment profit to total profits	50%	25%	25%	12.5%	15%	10%	L, M, N, O, P, Q
% segment Assets to total assets	36.50%	22.63%	15.33%	10.22%	10.22%	5.11%	L, M, N, O, P

Segments L, M, O and P clearly satisfy the revenue and assets tests and they are separate reportable segments.

Segment N does not satisfy the revenue test, but it does satisfy the asset test and it is a reportable segment.

Segment Q does not satisfy the revenue or the assets test but it does satisfy the profits test. Therefore, Segment Q is also a reportable segment.

Hence, all segments i.e.; L, M, N, O, P and Q are reportable segments.

Q8 (July 21 – 6 Marks) – (Similar to Q5)

U Limited is operating in the paint industry. Its business segments comprise paints (wall paints, lead paints, zinc paints, aluminium paints etc.), and others (consisting of primer, varnish, thinner and related products).

Certain information for financial year 2020-2021 is given below:

(Rs. in lakh)

Segments	External Revenue (Inc. GST)	GST	Other operating income	Result	Assets	Liabilities
Paints	10,000	250	2000	500	2500	1500
Other	3,500	150	750	200	1500	500

Additional Information:

- (i) Unallocated income (Net of expenses) is Rs. 1,50,00,000.
- (ii) Interest and bank charges are Rs. 1,00,00,000.
- (iii) Income tax expenses is Rs. 1,00,00,000 (Current tax Rs. 97,50,000 and deferred tax Rs. 2,50,000)
- (iv) Unallocated investments are Rs. 5,00,00,000 and other assets are Rs. 5,00,00,000.
- (v) Unallocated liabilities, reserve and surplus and share capital are Rs. 10,00,00,000, Rs. 15,00,00,000 and Rs. 5,00,00,000 respectively.
- (vi) Depreciation amounts for paints and others are Rs. 50,00,000 and Rs. 15,00,000 respectively.
- (vii) Capital expenditure for paints and others are Rs. 2,50,00,000 and Rs. 1,00,00,000 respectively.
- (viii) Revenue from outside India is Rs. 31,00,00,000 and segment assets outside India is Rs. 5,00,00,000.

Based on the above information, how U Limited would disclose information about reportable segment revenue, profit or loss, assets and liabilities and others for financial year 2020-2021. Ignore corresponding figures for the previous year.

SOLUTION

Segment information

Information about operating segment

- (1) the company's operating segments comprise:

Paints: consisting of wall paints, lead paints, zinc paints, aluminum paints etc.

Others: consisting of primer, varnish, thinner and related products.

- (2) Segment revenues, results and other information:

(Rs. in lakh)

	Revenue	Paints	Others	Total
1. External Revenue (gross)		10,000	3,500	13,500
GST		(250)	(150)	(400)
Total Revenue (net)		9,750	3,350	13,100
Other operating Income		2,000	750	2,750
Total Revenue		11,750	4,100	15,850
2. Results				
Segment results		500	200	700
Unallocated income (net of unallocated expenses)				150
Profit from operation before interest, taxation and exceptional items				850
Interest and bank charges				(100)
Profit before exceptional items				750
Exceptional items				Nil
Profit before taxation Income Taxes				750
-Current taxes				(97.5)
-Deferred taxes				(2.5)
Profit after taxation				650
3. Other Information				

(a) Assets			
Segment Assets	2,500	1,500	4,000
Investments			500
Unallocated assets			500
Total Assets			5,000
(b) Liabilities/Shareholder's funds			
Segment liabilities	1,500	500	2,000
Unallocated liabilities			1,000
Share capital			500
Reserves and surplus			1,500
Total liabilities / shareholder's funds			5,000
(c) Others			
Capital Expenditure	(250)	(100)	
Depreciation	(50)	(15)	

Geographical Information			(Rs. in lakh)
	India	Outside India	Total
Revenue	12,750	3,100	15,850
Segment assets	4,500	500	5,000
Capital expenditure (250 + 100)	350		350

